DEFINED CONTRIBUTION PLANS TRUSTEE BOARD
MEETING MINUTES

Wednesday, December 6, 2023

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Wednesday, December 6, 2023. The meeting took place in the City of San Diego Council Committee Chambers. Location: 202 C Street, 12th Floor, San Diego, California. The meeting was called to order at 1:33 p.m. by Elizabeth Correia.

1. ACTION ITEMS

A. Roll Call

Trustees Present:	Angela Colton, Elizabeth Correia, Gregg Rademacher, and David Onate
Trustees Absent:	Abraham Hunt
Staff present:	Quennelle Allen, Thomas J. Brady
Presenters:	Denise Jensen (Principal) and Jeffrey Nipp (Segal Marco)

B. Dispense with the reading and approval of the minutes of June 22, 2023

MOTION TO ACCEPT THE MINUTES OF JUNE 22, 2023 — Gregg Rademacher
SECOND: — David Onate
PASS (4-0, Abraham Hunt ABSENT)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Segal Marco Third Quarter Investment Report — Jeffrey Nipp

Mr. Nipp provided a brief recap of the markets for the year through September. Stocks and bonds remained positive from the fourth quarter through the first quarter; stocks continued to be positive in the second quarter, however, bonds began to decline as interest rates continued to rise. It was noted that the Federal Reserve’s last interest rate increase was in July. Stocks continued to perform well in July, saw mediocre results in August and negative results in September; the S&P 500 was down about 5% in the month of September. Despite a lack of increases from the Federal Reserve since July, interest rates continued to go up in the market, which led to negative bond returns. By the end of September, the broad market bond index was in negative territory year to date, while the S&P 500 was up about 13% year to date.

October yielded similar results to September, with stocks and bonds down. November had a turnaround with the largest upmarket returns in stocks and bonds, due to inflation reports coming in below expectations. Bonds are back in positive territory year to date, although that is not an issue for the City, as the City utilizes the Stable Value Fund as the fixed income component, which always produces a positive return.

Big Tech companies dominated returns during the first half of the year but slowed in the third quarter. Like last year, energy stocks performed well, while all other sectors were down during the third quarter.

Turning to the performance of the City's investment line-up, there is one fund on the watch list, the Oakmark Equity and Income Fund. This fund uses a very conservative portfolio, with more value-oriented equities which have not been in favor, and short-duration bonds, which actually helped during the third quarter. For the last three years, they have outperformed their benchmark, but their five-year record has continued to lag behind the benchmark. They need to remain on the watch list, however, the fund is performing exactly as expected given the market environment. When defensive stocks and shorter-term bonds do better, this portfolio does better.

Performance wise, for the quarter almost everything was down 3% to 5%, whether it was stocks, bonds, domestic, or international, with few exceptions. However, looking at the year to date, the Vanguard Growth Index, which contains big tech companies, is up 28.3%; whereas the Vanguard Value Index is just marginally positive year to date. Smaller CAP stocks have performed well, but not as well as larger CAP, as they lack big tech company exposure.

We now have one quarter of returns for the new International Equity Funds that went in place in May. The Oakmark Equity and Income balanced fund has outperformed its benchmark, but still resulted in negative returns for the quarter. The State Street Real Asset Index Fund was slightly negative for the quarter; with oil prices going up, there is a commodities component of this portfolio that helped. The Managed Income Fund provided a small positive return. The fund managers reset the rate every quarter and will not move as fast as market rates move. Rates have gone back down this quarter and this fund will grow at a slower pace.

The Target Date Funds were down approximately 2.5% to 3.5%. Given the nature of the market, the more aggressive funds, which are the longer dated funds for younger employees, have done better. All of these are outperforming over the last five years, ranking very highly in the universe of Target Date Funds.

The Board asked what the criteria to remove Oakmark from the watchlist is and when a new fund manager should be considered; in response it was noted that the criteria are laid out in the investment policy statement, with 3 and 5 year returns primarily driving the determination. The Oakmark fund is ahead of its benchmark for 3 years, but still behind for 5. There is not a specific period of time at which point it must be removed from the watch list. It has been the nature of the market that has been a headwind for this fund, however, it is performing as expected. Whether this balanced fund was needed was reviewed within the past three years. At the time, the Trustees agreed that due to its differences from the target date funds, US only and conservative nature, it should remain. At one point it was the default option with legacy assets, so it remains a long-standing option for employees.

B. Principal Third Quarter Report Denise Jensen

Ms. Jensen noted that as of September 30th, the Oakmark Fund makes up of 4% of the assets across all four plans and there are 2,770 participants that are invested in that fund, though there could be overlap across the four plans as individuals who have multiple plans typically are invested in the same fund, so we have some duplication across the board.

Beginning with the Plan Overview, as of September 30, 2023, total plan assets were $1.459 billion, which is an increase from September 30, 2022, which totaled $1.306 billion in plan assets. The number of outstanding loans between the two plans that offer loans, slightly decreased from 2,683 to 2,680. However, the total outstanding loan amount has increased by $2.6 million year-over-year. The total amount of plan-to-plan transfers through the third quarter of 2023 was $2.3 million; this does not include any of the transfers related to the unwinding of Proposition B, only the pure plan and plan transfers. The average account balance has increased for all four plans comparatively to September 30, 2022. The number of participants in the 401(k), 401(a), and SPSP-H plans has increased, while the number of participants in the SPSP has decreased just slightly for the year.

The Managed Income Fund holds the largest share of the percent of assets and deferrals and continues to remain relatively unchanged; this is primarily in the historical SPSP plan. Overall diversification across all four plans continues to trend relatively unchanged from the previous quarter. Participants continue to stay the course as it relates to diversifying their portfolios in each of the four plans.

The Roth feature that was added in the 401(k) plan continues to follow a positive trend. As of September 30, 2023, we had 1,438 participants that are taking advantage of the Roth contribution option in the 401(k) plan. The self-directed brokerage account, the PCRA, added on August 1, 2023, has two people taking advantage of it to date. The purpose of the PCRA is for those participants who want to be more fully engaged and pick their investment options. This is not any different than many other 401(k) plans out in the industry where the utilization rate is low.

C. Legislative Update Denise Jensen

Congress passed the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) in 2019; the SECURE 2.0 Retirement Savings Act (SECURE 2.0) was signed into law in 2022, expanding the SECURE Act of 2019. For 2024, the SECURE 2.0 is primarily offering discretionary items. The one that is getting the most attention and highest adoption rate across all of the plans within the Principal book of business, is the small account force out limit going from $5,000 to $7,000. Currently for employees who terminate employment, if they have an account balance between $1,000 and $5,000, they are automatically forced out to a Principal IRA. The IRS is now allowing that $5,000 threshold to be raised to $7,000. This is optional and it has been something that plan sponsors have been requesting due to smaller account balances becoming a nuisance for fiduciaries due to continued required account maintenance for termed employees.

The City Attorney noted that the City has specific rules for implementing optional provisions. The City must have a vote of the membership to adopt optional features. In addition, there are administrative complexities that must addressed. Staff is discussing internally how these optional items should be presented to the participants to vote on, but it will take some time to accomplish this. Staff will keep the Board updated, but the Board does not need to take any action. The Board is responsible for investments, not for the plans' optional features. These must go to City Council for approval if the members decided that they want these optional provisions.

Ms. Jensen noted that Principal is ready to implement for any of the plan sponsors who are adopting these optional provisions. effective January 1, 2024.

In addition, the SECURE 2.0 has a required provision wherein catchup contributions for employees earning $145,000 or more in FICA compensation must go to a Roth contribution type. This provision will be required to go into effect January 1, 2026.

The dollar limits for calendar year 2024 were also presented. The deferral limit is increasing by $500 for pre-tax and Roth contributions; the catch-up contribution will remain the same at $7,500.

Ms. Jensen stated that there is an opportunity to repaper the service agreements for the City of San Diego. Principal would like to move the City to a more current, enhanced service agreement, to be in line with actual services provided by Principal. The current Master Service Agreement on file with Principal dates to back to when the record-keeper was American Express.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

The Trustee Board meeting scheduled for February 8, 2023 is to be rescheduled due to a scheduling conflict. Time and location to be decided at a later date.

4. PUBLIC COMMENT

5. NEXT MEETING

Thursday, February 8, 2024 at 1:30 p.m. (to be re-scheduled)

6. ADJOURNMENT

Meeting adjourned at 2:04 p.m.

Backup documentation is available from the Risk Management Department